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ABSTRACT

Testimony of the associate director of the Department of Education's Health Education and Human Services Division, Education and Employment Issues, addresses issues concerned with Title IV of the Higher Education Act of 1965 as amended in 1992. Title IV provides grants, loans, and work-study supports to students pursuing post-secondary education including that provided by about 5,000 proprietary schools. The testimony focuses on ensuring that only those schools providing quality education and training access Title IV funds. First, it provides a broad overview of the regulatory framework for Title IV programs and then reports trends such as default rates. It lays out a framework for: (1) examining the legislative provision limiting Title IV participation to schools receiving at least 15 percent of their revenues from non-Title IV sources and (2) determining the extent to which Title IV funds pay to train students for jobs in no- or low-demand occupations. Although positive trends are identified (e.g., proprietary schools' share of Title IV funding has declined), the default rates of students from such schools remain substantially higher at 24 percent than those for peers from nonprofit institutions. Throughout the testimony, graphs and tables illustrate the data presented.(DB)

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HIGHER EDUCATION

Ensuring Quality Education From Proprietary Institutions

Statement of Cornelia M. Blanchette
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Health, Education, and Human Services Division

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Higher Education: Ensuring Quality Education From Proprietary Institutions

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to assist the Subcommittee in its oversight responsibilities for the Department of Education. The Department administers an array of student financial aid programs under Title IV of the Higher Education Act (HEA) of 1965, as amended.[1] These programs provide grants, loans, and work-study support to students pursuing postsecondary education. In fiscal year 1995, under Title IV, the federal government made about $35.2 billion available to about 7 million postsecondary students with $5.4 billion (15 percent) for Pell grants and $14.3 billion (41 percent) for subsidized Stafford loans—two of the three largest Title IV programs.

A considerable history of concern exists about the integrity of Title IV programs, particularly the federal student loan programs. Since the late 1980s, the Department's Office of Inspector General, the Congress, and GAO have all concluded after completing several investigations that extensive fraud and abuse exist in student aid programs. Between fiscal years 1983 and 1993, annual federal payments to honor default claims increased over 400 percent, from $445 million to $2.4 billion.[2]

Annually, almost 1 million students enroll in about 5,000 proprietary (private for-profit) schools that represent about 50 percent of all postsecondary institutions. As a sector of the postsecondary education community, proprietary institutions make an important contribution to the nation's economic competitiveness by providing occupational training to those who are not college-bound. However, the actions of some proprietary school owners have been at the core of program concerns given past findings. For example, some proprietary school operators have enriched themselves at the expense of economically disadvantaged students while providing little or no education in return. Faced with large debts and no new marketable skills, these students often defaulted on their loans. In fact, default rates for proprietary school students peaked at around 41 percent in 1990 at a time when the student loan default rate for all postsecondary students averaged about 22 percent.

[1]Title IV established financial aid programs for students attending institutions of higher education and vocational schools and includes the Federal Family Educational Loan Program and the Federal Direct Student Loan Program. Both offer subsidized and unsubsidized Stafford loans and Parent Loans for Undergraduate Students. Title IV also established the Federal Pell Grant Program and the Federal Perkins Loan Program.

[2]At the time of our review, the Department of Education did not maintain data disaggregated by type of institution on federal payments for default claims.

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In recent years, the Congress has enacted legislation to address the problems plaguing Title IV programs. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) established a process for terminating institutions with unacceptably high default rates from participation in the federal loan program. The act set a default rate threshold of 35 percent for fiscal years 1991 and 1992, and 30 percent for fiscal year 1993. Under the act, institutions that meet or exceed the threshold for 3 consecutive years are ineligible to participate in the program. The Higher Education Amendments of 1992 (P.L. 102-325) further tightened eligibility requirements by lowering the threshold to 25 percent for subsequent fiscal years.

You requested that today we talk about several issues related to "gatekeeping"—the process of ensuring that only schools providing quality education and training access Title IV funds. First, we will provide a broad overview of the regulatory framework for Title IV programs, outlining the roles and responsibilities of the principal actors. Second, we will discuss some of our preliminary observations on proprietary schools from ongoing work for the Subcommittee, describing trends in some quantitative measures, such as default rates, and laying out the framework for (1) examining the legislative provision limiting Title IV participation to schools receiving at least 15 percent of their revenues from non-Title IV sources and (2) determining the extent to which Title IV funds pay to train students for jobs in no- or low-demand occupations.

The information we present today is based on a review of the legislative history of the 1992 amendments to HEA, discussions with Department of Education officials responsible for examining accrediting agencies, and discussions with six nationally recognized accrediting agencies that cover 95 percent of all proprietary schools that participate in Title IV programs. In addition, we developed trend information on proprietary school students and Title IV programs using data from the Department.

In summary, to address long-standing concerns, the Congress sought to strengthen Title IV oversight by amending HEA in 1992. Recent trend data show mixed results. Some signs of modest progress exist: The six accrediting agencies that cover 95 percent of proprietary schools participating in Title IV accredit from 3 to 26 percent fewer schools than in 1992; proprietary schools' share of Title IV funding has declined; and the default rate for proprietary school students has fallen 12 percentage points, from 36 percent in 1991 to 24 percent in 1993. These trends, however, do not abate concern about program quality. For example, while

proprietary school students' default rates have been reduced, their rates remain substantially higher than those for their peers who attend nonprofit institutions—about 14 percent for students attending 2-year nonprofits and about 7 percent for those attending 4-year nonprofits. In addition, questions remain about (1) whether proprietary schools that overwhelmingly rely on federal student aid for revenue should be allowed to continue participating in Title IV and (2) to what extent proprietary schools are training students for jobs that do not exist.

Background

Vast sums of money funnel into America's higher education system each year through student financial aid programs authorized by Title IV of HEA, as amended. In 1995, about $35.2 billion in aid was made available to almost 7 million students to attend postsecondary institutions, with aid available projected to reach $40 billion in 1997.

As funding for Title IV programs has increased, so have losses to the federal government from honoring its guarantee on student loans. In 1968, the government paid $2 million to cover loan defaults; in 1987, default payments exceeded $1 billion; and by 1991, default claim payments reached a staggering $3.2 billion. In 1992, GAO listed the student loan program as 1 of 17 high-risk federal program areas especially vulnerable to waste, fraud, abuse, and mismanagement. More specifically, we found, among other things, that (1) schools used the program as a source of easy income with little regard for students' educational prospects or the likelihood of their repaying loans and (2) management weaknesses plagued the Department that prevented it from keeping on top of these problems.[3] The proprietary school sector has been associated with some of the worst examples of program abuse.

In the United States, 5,235 proprietary schools represent about 50 percent of all postsecondary institutions. Most are small, enrolling fewer than 100 students, and offer occupational training of 2 years or less in fields ranging from interior design to computer programming. Proprietary schools enrolled more than 1 million students in fall 1993—about 10 percent of all undergraduates. Compared with nonprofit institutions, proprietary schools enroll higher percentages of women, minorities, and low-income students. About 67 percent of proprietary school students receive federal student aid under Title IV.

[3]See Guaranteed Student Loans (GAO/HR-93-2, Dec. 1992).

While average default rates for all postsecondary institutions reached an all-time high of 22 percent in 1990, the default rate for proprietary schools exceeded 41 percent. This disparity has triggered numerous investigations. Congressional investigations, for example, discovered evidence of fraud and abuse by proprietary school owners. The Congress found that some proprietary schools focused their efforts on enrolling educationally disadvantaged students and obtaining federal funds rather than on providing meaningful training or education. The Congress also concluded that the regulatory oversight system of Title IV programs provided little or no assurance that schools were educating students efficiently or effectively. Several recommendations emanating from these findings were included in the 1992 amendments to HEA.

Title IV Regulatory Framework

The Title IV regulatory structure includes three actors—the Department of Education, states, and accrediting agencies—known as the "triad." Because of concern about federal interference in school operations, curriculum, and instruction, the Department has relied on accrediting agencies and states to determine and enforce standards of program quality. HEA recognizes the roles of the Department, the states, and the accrediting agencies as providing a framework for a shared responsibility for ensuring that the "gate" to student financial aid programs opens only to those institutions that provide students with quality education or training worth the time, energy, and money they invest.

Department of Education

The Department plays two roles in gatekeeping. First, it verifies institutions' eligibility and certifies their financial and administrative capacity. In verifying institutional eligibility, the Department reviews documents provided by schools to ensure their compliance with state authorization and accreditation requirements; eligibility renewal is conducted every 4 years. In certifying that a school meets financial responsibility requirements, the Department determines whether the school can pay its bills, is financially sound, and that the owners and employees have not previously been convicted of defrauding the federal government. In certifying that institutions meet administrative requirements, the Department determines whether institutions have personnel resources adequate to administer Title IV programs and to maintain student records.

Second, the Department grants recognition to accrediting agencies, meaning that the Department certifies that such agencies are reliable

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authorities as to what constitutes quality education or training provided by postsecondary institutions. In deciding whether to recognize accrediting agencies, the Secretary considers the recommendations of the National Advisory Committee on Institutional Quality and Integrity. The advisory committee consists of 15 members who are representatives of, or knowledgeable about, postsecondary education and training. Appointed by the Secretary of Education, committee members serve 3-year terms. The advisory committee generally holds public meetings twice a year to review petitions for recognition from accrediting agencies. The Department's Accrediting Agency Evaluation Branch is responsible for reviewing information submitted by the accrediting agencies in support of their petitions. Branch officials analyze submitted materials, physically observe an accrediting agency's operations and decision-making activities, and report their findings to the advisory committee.

States

States use a variety of approaches to regulate postsecondary educational institutions. Some states establish standards concerning things like minimum qualifications of full-time faculty and the amount of library materials and instructional space. Other state agencies define certain consumer protection measures, such as refund policies. In the normal course of regulating commerce, all states require postsecondary institutions to have a license to operate within their borders.

Because of concerns about program integrity, the Congress, in amending HEA in 1992, decided to strengthen the role of states in the regulatory structure by authorizing the creation of State Postsecondary Review Entities (SPRE). Under the amendments, the Department would identify institutions for review by SPREs, using 11 criteria indicative of possible financial or administrative distress. To review institutions, SPREs would use state standards to assess such things as advertising and promotion, financial and administrative practices, student outcomes, and program success. On the basis of their findings, SPREs would recommend to the Department whether institutions should retain Title IV eligibility. The Congress terminated funding for SPREs in 1995.

Accrediting Agencies

The practice of accreditation arose as a means of having nongovernmental, peer evaluation of educational institutions and programs to ensure a consistent level of quality. Accrediting agencies adopt criteria they consider to reflect the qualities of a sound educational

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program and develop procedures for evaluating institutions to determine whether they operate at basic levels of quality.

As outlined by the Department of Education, the functions of accreditation include

- certifying that an institution or program has met established standards,
- assisting students in identifying acceptable institutions,
- assisting institutions in determining the acceptability of transfer credits,
- creating goals for self-improvement of weaker programs and stimulating a general raising of standards among educational institutions,
- establishing criteria for professional certification and licensure, and
- identifying institutions and programs for the investment of public and private funds.

Generally, to obtain initial accreditation, institutions must prepare an in-depth self-evaluation that measures their performance against standards established by the accrediting agency. The accrediting agency, in turn, sends a team of its representatives to the institution to assess whether the applicant meets established standards. A report, containing a recommendation based on the institution's self-evaluation and the accrediting agency's team findings, is reviewed by the accrediting agency's executive panel. The panel either grants accreditation for a specified period of time, typically no longer than 5 years, or denies accreditation. Once accredited, institutions undergo periodic re-evaluation.

To retain accreditation, institutions pay sustaining fees and submit status reports to their accrediting agencies annually. The reports detail information on an institution's operations and finances and include information on such things as student enrollment, completion or retention rates, placement rates, and default rates. In addition, institutions are required to notify their accrediting agencies of any significant changes at their institutions involving such things as a change in mission or objectives, management, or ownership.

Accrediting agencies judge whether institutions continue to comply with their standards on the basis of the information submitted by institutions and other information such as complaints. Whenever an accrediting agency believes that an institution may not be in compliance, the agency can take a variety of actions. For example, agencies may require institutions simply to provide more information so that they can render a judgment, conduct site visits to gather information, require institutions to

take specific actions that address areas of concern, or, in rare instances, ultimately revoke accreditation.

Recent Proprietary School Trends

Recent information points to some favorable trends regarding the participation of proprietary schools in the Title IV program. Fewer proprietary schools participate in Title IV programs now than 5 years ago, a trend reflected in decreased numbers of schools accredited by the six primary accrediting agencies. Proprietary schools receive a much smaller share of Title IV aid dollars now than in the past. And, while the default rates for proprietary school students are still far above those associated with nonprofit institutions, the rates have declined over the past few years.

Accreditation

For the six agencies we contacted, we observed a trend toward accrediting fewer institutions since 1992 (see table 1). Agency officials pointed out a number of reasons for the decreases, including recent changes in Title IV regulations, more aggressive oversight by accrediting agencies, school closures, and the fact that schools once accredited by two or more agencies are now accredited only by one. We observed no clear trends in other accreditation decisions such as an increasing or decreasing propensity to grant, deny, or revoke school accreditation over the past few years. Some accrediting agency officials told us that because they effectively prescreen institutions applying for accreditation, they would not expect to see much change in the number of cases in which accreditation is denied or applications are withdrawn.

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Table 1: Number of Institutions Accredited by Six Agencies Accrediting Most Proprietary Schools in Title IV, by Year

	1992	1993	1994	1995	Percentage change 1992-95
Accrediting Council for Continuing Education and Training[a]	335	317	287	261	-22
Accrediting Commission of Career Schools and Colleges of Technology[b]	1,002	954	938	956	-5
Accrediting Council for Independent Colleges and Schools[a]	543	491	431	404	-26
Council on Occupational Education[a,c]	203	198	186	159	-22
National Accrediting Commission of Cosmetology Arts and Sciences[b]	1,469	1,399	1,291	1,269	-14
Accrediting Bureau of Health Education Schools[b]	78	87	80	76	-3

Note: Totals not provided because of differences in accrediting agencies' methods of counting institutions and because some agencies accredit both proprietary and nonprofit institutions.

[a]Agency provided data on the number of institutions' main campuses excluding their branch campuses.

[b]Agency provided data on the number of institutions without distinguishing between main and branch campuses.

[c]Agency provided data on the number of accredited proprietary institutions only.

Source: Information provided by accrediting agencies.

Share of Title IV Funds

Proprietary schools' share of Title IV aid has steadily declined since the late 1980s. For example, about 25 percent of all Pell grant dollars went to students attending proprietary schools in 1986-87, but by 1992-93 that figure declined to about 18 percent (see fig. 1). While total Pell grant expenditures rose from $3.4 billion to $6.2 billion over these years, the amount retained by proprietary schools only increased from $.9 billion to $1.1 billion. For the subsidized Stafford loan program, the proprietary school share declined from nearly 35 percent of all dollars in 1986-87 to about 10 percent in 1992-93. In the Federal Family Education Loan

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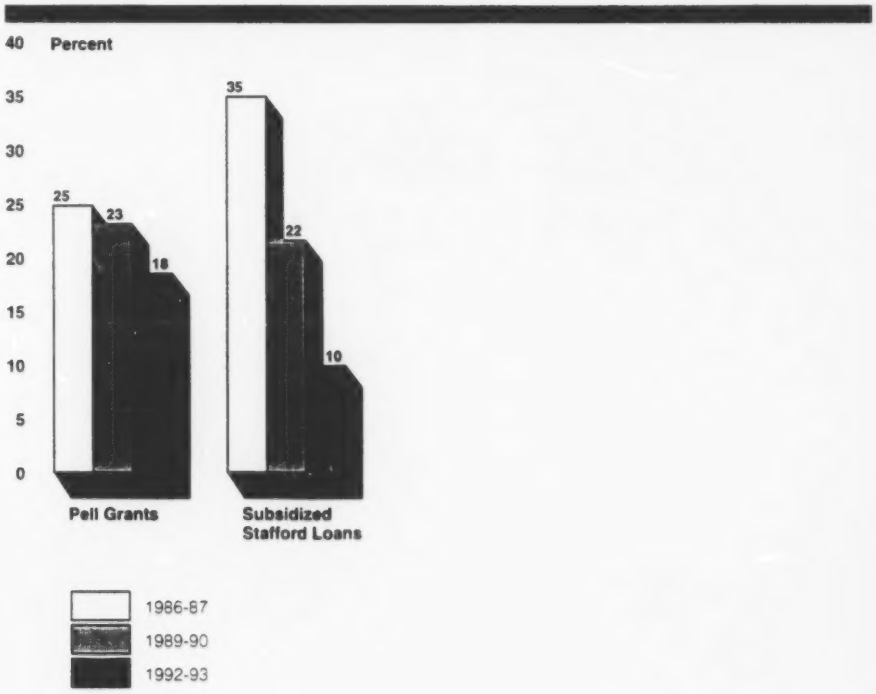
Program, total dollars increased from $9.1 billion to $14.6 billion between 1986-87 and 1992-93, but dollars going to proprietary schools fell from $3.2 billion to $1.7 billion.[4]

Figure 1: Declining Share of Title IV Dollars Going to Proprietary Schools



The proportion of proprietary school students receiving Title IV aid has been declining as well, although these students remain more likely than others to receive aid. The proportion receiving aid fell from nearly 80 percent in 1986-87 to about 67 percent in 1992-93, while the proportion of students receiving aid at the public and private nonprofit schools remained steady.

Furthermore, for proprietary school students who receive aid, the average dollar amount has risen more slowly than for students in other sectors. Average aid received by proprietary school students went up by 20 percent

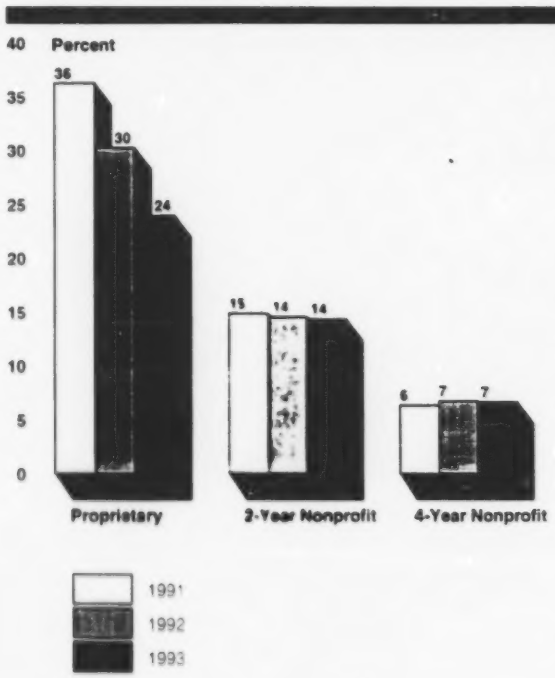
[4]These figures include subsidized Stafford loans, Parent Loans for Undergraduate Students, and Supplemental Loans for Students, but not unsubsidized Stafford loans.

between 1986-87 and 1992-93; in contrast, the increase was 34 percent for public school students and 47 percent for private nonprofit school students.

Default Rates

Loan default rates for proprietary school students have been declining in recent years, from 36.2 percent in 1991 to 23.9 percent in 1993 (see fig. 2), while default rates in other sectors have not changed. However, students at proprietary schools are still more likely than others to default on student loans. The most recent rates for 2- and 4-year nonprofit schools were 14 and 7 percent, respectively.

Figure 2: Default Rates for Students at Proprietary Schools Have Declined but Are Still Higher Than Those at Nonprofit Schools



The 85-15 Rule

One new measure adopted in the 1992 HEA amendments to help tighten eligibility for Title IV student financial aid programs was the so-called 85-15 rule. This provision prohibits proprietary schools from participating in Title IV programs if more than 85 percent of their revenues come from these programs. The presumption under the rule is that if proprietary

schools are providing good services, they should be able to attract a reasonable percentage of their revenues from sources other than Title IV programs. In other words, the 85-15 rule is based on the notion that proprietary schools which rely overwhelmingly on Title IV funds may be poorly performing institutions that do not serve their students well and may be misusing student aid programs, and therefore should not be subsidized with federal student aid dollars.

Since the 85-15 rule went into effect last July, proprietary schools that fail to meet the standard must report this to the Department within 90 days following the end of their fiscal year. Schools that meet the standard must include a statement attesting to that fact in their audited financial statements due to the Department within 120 days following the end of their fiscal year. The period has now elapsed for the vast majority of schools. Thus far, however, only four proprietary schools have notified the Department of their failure to meet the 85-15 standard.

This finding may have a variety of possible explanations. For example, it may be that very few schools actually had more than 85 percent of their revenues coming from Title IV when the rule became law or that most such schools adjusted their operations to meet the standard when it took effect. Conversely, the actual number of schools that failed to meet the 85-15 standard could be substantially higher. According to the Department, about 25 percent of the 830 proprietary schools that submitted financial statements during the past 2 months have not properly documented whether they met the 85-15 standard. These schools may have met the 85-15 standard but misunderstood the reporting rules, or they may have failed to meet the 85-15 standard and intentionally not reported this fact in an attempt to avoid or postpone losing their Title IV eligibility.

At the Chairman's request, we recently initiated a study to address the core of this issue: Is there a clear relationship between reliance on Title IV revenues and school performance? Using data from national accrediting associations, state oversight agencies, and the Department, we will attempt to determine whether greater reliance on Title IV funds is associated with poorer outcomes, such as lower graduation and placement rates.

Title IV-Funded Training and Labor-Market Conditions

Annually, students receive over $3 billion from Title IV programs to attend postsecondary institutions that offer occupational training without regard to labor market circumstances. While Department regulations stipulate

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that proprietary schools—the principal vendors of occupational education and training under Title IV—provide instruction to "prepare students for gainful employment in a recognized occupation," schools are not required to consider students' likelihood of securing such employment. Students who enroll in occupational education programs, obtain grants, and incur significant debt often risk being unable to find work because they have been trained for fields in which no job demand exists. Proprietary school students are particularly vulnerable in this situation because, according to current research, unlike university graduates, they are less likely to relocate outside of their surrounding geographic region.[5]

The Department's Inspector General (IG) recently estimated that about $725 million in Title IV funds are spent annually to train cosmetology students at proprietary schools, yet the supply of cosmetologists routinely exceeds demand. For example, in 1990, 96,000 cosmetologists were trained nationwide, adding to a labor market already supplied with 1.8 million licensed cosmetologists. For that year, according to the Bureau of Labor Statistics, only 597,000 people found employment as cosmetologists, about one-third of all licensed cosmetologists. In Texas, the IG also found that, not surprisingly, the default rate for cosmetology students exceeded 40 percent in 1990.

At the Chairman's request, we have also initiated a study to address this issue. States have information readily available to project future employment opportunity trends by occupation. We are analyzing its usefulness in identifying occupations that, in the short term, have an over- or undersupply of trained workers. Using this data in conjunction with databases from the Department, we hope to determine the pervasiveness of this problem and the Title IV costs associated with it. We expect to report our results on this matter to you early next year.

Mr. Chairman, this concludes my prepared remarks, and, as I mentioned, we will be reporting to you in the near future on the results of our ongoing work for the Subcommittee. I am happy to answer any questions you may have at this time.

[5]Axel Borsch-Supan, "Education and its Double-Edged Impact on Mobility," Economics of Education Review, Vol. 9, No. 1 (1990), pp. 39-53.

Contributors

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